

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>City of Harbor Springs Building Authority</b>	County <b>Emmet</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>5/17/06</b>	Date Accountant Report Submitted to State: <b>7/11/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

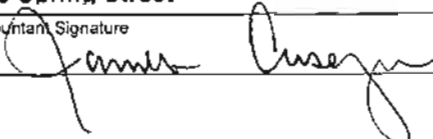
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU)			✓

Certified Public Accountant (Firm Name) <b>Hill, Schroderus &amp; Co., LLP</b>			
Street Address <b>923 Spring Street</b>	City <b>Petoskey</b>	State <b>MI</b>	Zip <b>49770</b>
Accountant Signature 		Date <b>7/11/06</b>	

FINANCIAL REPORT  
CITY OF HARBOR SPRINGS  
BUILDING AUTHORITY  
December 31, 2005

CITY OF HARBOR SPRINGS BUILDING AUTHORITY  
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May 17, 2006

Independent Auditors' Report

Board of Commissioners  
City of Harbor Springs Building Authority  
Harbor Springs, Michigan

We have audited the financial statements of the City of Harbor Springs Building Authority, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Building Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Harbor Springs Building Authority as of December 31, 2005 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The City of Harbor Springs Building Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Hill Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

CITY OF HARBOR SPRINGS BUILDING AUTHORITY  
STATEMENT OF NET ASSETS  
December 31, 2005

**Assets**

Current assets:	
Current portion of lease contract receivable - net of interest	\$ 25,000
Lease contract receivable (net of current portion)	<u>1,025,000</u>
Total assets	<u><u>\$ 1,050,000</u></u>

**Liabilities and Net Assets**

Current liabilities:	
Current portion of bonds payable	\$ 25,000
Bonds payable (net of current portion)	<u>1,025,000</u>
Total liabilities	1,050,000
Net assets	<u>-</u>
Total liabilities and net assets	<u><u>\$ 1,050,000</u></u>

CITY OF HARBOR SPRINGS BUILDING AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Year Ended December 31, 2005

Revenues:	
Lease contract revenue	\$ 55,968
Expenses:	
Bond interest and fiscal charges	<u>55,968</u>
Excess (deficiency) of revenues over expenses	-
Net assets, beginning	<u>-</u>
Net assets, ending	<u><u>\$ -</u></u>

CITY OF HARBOR SPRINGS BUILDING AUTHORITY  
STATEMENT OF CASH FLOWS  
Year Ended December 31, 2005

Cash flows from operating, capital financing, and investing activities:

There were no cash operating, capital financing, or investing activities during the reported period

Non-cash operating and financing activities:

The Authority recognizes lease revenue due from the City and the related bond, interest and fiscal charges as these charges are paid directly by the City on the Authority's behalf.

Lease contract receivable	\$ 25,000
Lease contract revenue	55,968
Bond principal	(25,000)
Bond interest and fiscal charges	(55,968)
	<hr/>
Total non-cash operating and financing activities	<hr/> \$ - <hr/>

**CITY OF HARBOR SPRINGS BUILDING AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Harbor Springs Building Authority pertain to the financial activities of the Authority as a separate entity. These activities have also been consolidated with the financial statements of the City of Harbor Springs, Michigan. The Authority is covered by various insurance policies maintained by the City of Harbor Springs.

The Building Authority has lease contracts with the City of Harbor Springs, Michigan covering the construction of the city hall, and police department renovations by the Authority. Since the contracts represent financing transactions, the Authority has recorded the lease contracts as receivables in lieu of recording the properties as fixed assets.

The financial statements of the Authority have been prepared on the accrual basis of accounting except for the recognition of interest income and expense as explained below.

Accounting policies for specific items follow:

Outstanding bonds not defeased are recorded as a liability.

Interest income associated with the investments is recorded when received. Interest expense associated with the bonds is recorded when cash is disbursed. Accruing interest expense would be offset by accrued revenue from the City resulting in essentially the same position and results of operations.

**NOTE 2: LEASE CONTRACTS AND BONDS**

**City Hall/Police Department**

The Building Authority has a lease contract with the City of Harbor Springs, Michigan, covering the city hall and police department buildings. General obligation bonds totaling \$1,125,000 were issued in 2002 by the Building Authority and all of the proceeds have been used to renovate the city hall and police department buildings.

Rental receipts under the lease agreement, which are pledged as collateral for the bonds, have been set at the amount necessary to meet principal and interest payments due on the bonds. Upon retirement of the bonds, which are scheduled for redemption through 2022, ownership of the related facilities will be turned over to the City.



## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 2: LEASE CONTRACTS AND BONDS – CONTINUED

Details of the ordinances and related assets and liabilities are as follows:

	City Hall/Police Department
Lease contract receivable	\$ 1,592,393
Interest included	<u>(542,393)</u>
Net receivable on balance sheet	<u>\$ 1,050,000</u>
Bonds outstanding	<u>\$ 1,050,000</u>
Interest rates	<u>4.0 to 6.0%</u>

The annual debt service requirements to maturity for the bonds outstanding as of December 31, 2005 are as follows:

December 31	City Hall/Police Department Principal	Interest
2006	\$ 25,000	\$ 54,968
2007	50,000	53,968
2008	50,000	50,968
2009	50,000	47,966
2010	50,000	44,968
2011-2015	300,000	182,215
2016-2020	375,000	95,810
2021-2025	<u>150,000</u>	<u>11,530</u>
Total	<u>\$ 1,050,000</u>	<u>\$ 542,393</u>

### NOTE 3: DEFEASED BONDS

During 2004, the City defeased the 1994 Series Bonds, by placing \$560,000 of the proceeds from the sale of general obligation bonds into an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are excluded from the Authority's financial statements. At December 31, 2005 outstanding 1994 Series Bonds aggregating \$475,000 are considered defeased.